

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-10 ISO-00 AID-05 CEA-01 CIAE-00

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R 151700Z OCT 75

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TO SECSTATE WASHDC 8815

INFO AMEMBASSY ANKARA

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DEPT PASS CEA, TREASURY, FRB

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJ: EDRC OCT 8 MEETING: LATEST OECD SECRETARIAT ASSESSMENT OF CURRENT ECONOMIC PROSPECTS OF MEMBER COUNTRIES

REF: STATE 239047

I. 1. SUMMARY: AT OCT 8 EDRC MEETING ON INFORMATION AND PROCEDURES SECRETARIAT GAVE TENTATIVE ASSESSMENT OF CURRENT SITUATION AND SHORT-TERM OUTLOOK FOR OECD AS A WHOLE AND FOR BIG SEVEN COUNTRIES THROUGH 1976. SECRETARIAT NOTED THAT FORECASTS IN JULY "ECONOMIC OUTLOOK" UNDERESTIMATED BOTH DEPTH OF DECLINE AND STRENGTH AND TIMING OF RECOVERY. EMPHASIS PLACED ON UNEVEN PERFORMANCE OF MEMBER COUNTRIES, WITH EUROPEAN COUNTRIES LAGGING IN RECOVERY CONSIDERABLY BEHIND U.S., JAPAN AND CANADA. FORECAST FOR BIG SEVEN COUNTRIES IS FOR MODERATE INCREASE IN OUTPUT AND TRADE THROUGH FIRST HALF 1976, WITH SLIGHT WEAKENING OF UPTURN IN SECOND HALF 1976. SMALLER OECD COUNTRIES SEEN AS DECLINING LESS THAN BIG 7 IN ECONOMIC GROWTH BY ABOUT 1 PERCENT IN 1975, BUT LAGGING THEM BY ABOUT 1 PERCENT IN 1976. PRICE INCREASES SEEN MODERATING, BUT NOT BELOW 8 PERCENT AT ANNUAL RATE EXCEPT IN GERMANY. SECRETARIAT CHARACTERIZED ALL ESTIMATES AS HIGHLY PRELIMINARY AND SUBJECT TO SUBSTANTIAL REVISION BEFORE NOVEMBER MEETINGS OF SHORT-TERM FORECASTERS AND OF ECONOMIC POLICY COMMITTEE.

## II. GENERAL ECONOMIC SITUATION

2. REAL GNP GROWTH: IN ASSESSING GNP GROWTH PROSPECTS THROUGH 1976, SECRETARIAT TOOK ACCOUNT OF ALL GOVERNMENT POLICIES IMPLEMENTED OR ANNOUNCED (WITH EXCEPTION OF LIMITED OFFICIAL USE

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U.S. PACKAGE ANNOUNCED LAST WEEK). IN ADDITION, FOLLOWING "NEUTRAL" BEHAVIOR ASSUMPTIONS WERE ADOPTED: (A) SAVINGS RATIONS WILL BE UNCHANGED;(B) RESTOCKING WILL LEVEL OFF, BUT NO SIGNIFICANT REBUILDING WILL OCCUR. SECRETARIAT EMPHASIZED THAT RECENT PERFORMANCE AND PROSPECTS DIFFER WIDELY BETWEEN OECD COUNTRIES. WHILE, IN FIRST HALF 1975, U.S. AND JAPAN PERFORMED IN GNP GROWTH BETTER THAN FORECAST IN JULY "ECONOMIC OUTLOOK,"

EUROPEAN COUNTRIES PERFORMED MUCH WORSE (MINUS 6 PERCENT;  
VS. MINUS 2 PERCENT FORECAST), WITH UNDERESTIMATE OF  
INVENTORY RUNDOWN THE MAJOR FACTOR. SIMILARLY, FOR 1976,  
BIG SEVEN ARE EXPECTED TO SHOW GNP GROWTH OF R PERCENT  
DUE TO POSITIVE INFLUENCE OF U.S., JAPAN AND CANADA,  
WHILE GROWTH OF EUROPEAN COUNTRIES FORECAST AT 2 PERCENT.  
IN VIEW OF CENTRAL ROLE PLAYED BY INVENTORY BEHAVIOR  
AND ABNORMALLY HIGH SAVINGS RATIOS IN CAUSING EARLIER  
FORECASTS TO UNDERESTIMATE DEPTH OF RECESSION AND  
TIMING AND STRENGTH OF RECOVERY, SECRETARIAT PLANS TO  
STUDY THESE QUESTIONS IN MORE DETAIL BEFORE NOVEMBER  
ECONOMIC POLICY COMMITTEE MEETING. SMALL COUNTRIES LAG-  
GING IN CYCLE, WITH RATE OF BOTH GNP DECLINE IN 1975  
AND REVIVAL IN 1976 BEING ABOUT 1 PERCENT LESS THAN IN  
MAJOR COUNTRIES. CURRENT UNEMPLOYMENT OF 14-1/2  
MILLION SLIGHTLY BETTER THAN 15 MILLION FORECAST DUE TO  
DECLINE IN U.S. IN 1976 SECRETARIAT SEES LITTEL REDUC-  
TION IN UNEMPLOYMENT IN OECD, AS IMPREVEMENTS IN U.S. EXPECTED  
TO BE OFFSET BY FURTHER DETERIORATION IN EUROPE.

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3. TRADE: JULY "ECONOMIC OUTLOOK" FORECAST 13 PERCENT DECLINE IN OECD IMPORT VOLUMES FOR FIRST HALF OF 1975 WHEREAS ACTUAL DECLINE WAS ABOUT 20 PERCENT, WITH DIFFERENCE LARGELY ATTRIBUTABLE TO UNDERESTIMATE OF STOCK RUNDOWN. IN 1976, FORECAST IS FOR 5 PERCENT INCREASE IN VOLUME OF IMPORTS AND 3-4 PERCENT INCREASE IN THAT OF EXPORTS. OECD OIL IMPORTS EXPECTED TO INCREASE BY 7 PERCENT IN 1976 (LATEST OIL PRICE INCREASE FACTORED IN). RATE OF EXPANSION OF OECD EXPORTS TO OPEC EXPECTED TO FALL (DUE TO INFLUENCE OF LARGE BASE), DECLINING FROM 48 PERCENT IN 1975 TO 20 PERCENT IN 1976. EXPORTS TO NON-OIL DEVELOPING COUNTRIES SHOULD FALL AS BALANCE-OF-PAYMENT CONSTRAINTS FORCE LATTER TO CURB NON-OIL IMPORTS. PROJECTED LARGE 1976 DECLINE (-13 1/2 PERCENT) IN OECD EXPORTS TO OTHER COUNTRIES REFLECTS ASSUMPTION THAT U.S. GRAIN EXPORTS TO USSR WILL FALL. FORECAST IS FOR OECD CURRENT ACCOUNT DEFICIT OF \$5 BILLION IN 1975 AND \$10 BILLION IN 1976.

4. PRICES: THIS FORECAST TAKES ACCOUNT OF LATEST 10 PERCENT INCREASE IN OIL PRICES AND ASSUMES THAT FOOD AND RAW MATERIALS PRICES WILL BE STABLE, THAT WAGE DEMANDS WILL BE MODERATE, AND THAT RECOVERY WILL BE ACCOMPANIED

BY LARGE INCREASES IN LABOR PRODUCTIVITY. SECRETARIAT NOTES PRICE PROJECTIONS PARTICULARLY DIFFICULT, BUT VENTURED THAT FOR OECD AS A WHOLE CONSUMER PRICES MIGHT INCREASE 8 PERCENT OR LESS IN 1976. SECRETARIAT QUALIFIES ASSESSMENT BY NOTING THAT UNFAVORABLE MOVEMENT IN EXOGENEOUS FACTORS (FOOD, RAW MATERIALS, OIL PRICES; INFLATIONARY EXPECTATIONS) OR ENDOGENEOUS FACTORS (INCREASED WAGE DEMANDS, EXPANDING PROFIT MARGINS) COULD DISRUPT ESTIMATES.

5. RE QUESTIONS POSED REF B, SECRETARIAT HAS MADE NO FORECASTS BEYOND END 1976. IMPLICITLY, HOWEVER, PRO-LIMITED OFFICIAL USE

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JECTION THROUGH 1976 BESPEAKS OF INADEQUACY OF PRESENT POLICIES, IN SENSE THAT IN MOST COUNTRIES SLACK WILL BE INCREASING DURING FORECAST PERIOD. EXCEPT FOR JAPAN, EVEN IN THOSE FEW CASES (E.G. U.S.) WHERE RATE OF GNP GROWTH MAY SOMEWHAT EXCEED NORMAL CAPACITY INCREASE, LARGE AMOUNT OF EXCESS CAPACITY WILL PERSIST AND GNP GROWTH RATE EXPECTED TO SLOW DOWN AGAIN IN SECOND HALF 1976. FORECAST FOR TRADE COVERED IN PARA 3 AND TABLE 3 (BELOW). ASSUMPTIONS ON SAVINGS RATION COVERED PARA 2; SECRETARIAT FEELS CONTINUED HIGH UNEMPLOYMENT MILITATES AGAINST DECLINE, BUT PLANS TO STUDY THIS QUESTION FURTHER (SEE PARA 2).

### III. COUNTRY ASSESSMENT

6. U.S.: RECOVERY IN U.S. HAS BEEN STRONGER THAN EXPECTED, WITH REAL GNP EXPECTED TO GROW BY 6.3 PERCENT IN LAST HALF OF 1975. U.S. NOW LEADING RECOVERY IN OECD AREA. RATE OF GROWTH COULD DECLINE TO 4.0 PERCENT IN SECOND HALF OF 1976, REFLECTING SLOW GROWTH IN MONEY SUPPLY, WEAKNESS IN FIXED INVESTMENT AND DECELERATION IN INITIAL GROWTH OF REAL CONSUMPTION. DECLINE IN UNEMPLOYMENT RATE EXPECTED TO STABILIZE AT 8 PERCENT IN 1976, WITH NOMINAL WAGES RISING BY 9 PERCENT OVER PERIOD. CONSUMER PRICE INCREASE IN 1976 FORECAST AT 7-1/2 - 8 PERCENT. GROWTH RATE FOR 1976 OF 5.3 PERCENT IS ABOVE 4 PERCENT LONG-TERM AVERAGE, IMPLYING SOME REDUCTION IN EXCESS CAPACITY AND POSSIBLE STIMULUS TO FIXED INVESTMENT, BUT SECRETARIAT SEES EXCESS CAPACITY AS DRAG ON MOMENTUM OF U.S. RECOVERY.

7. JAPAN: JAPAN'S PERFORMANCE IS IN LINE WITH EARLIER OECD FORECASTS. REAL GNP GROWTH ESTIMATED AT 1.5 PERCENT IN 1975 AND 5.3 PERCENT IN SECOND HALF OF 1976. BY HISTORICAL STANDARDS, RECOVERY SHOULD BE MODERATE, REFLECTING OFFSETTING INFLUENCES OF WEAKNESS IN FIXED

INVESTMENT, BUOYANT PRIVATE CONSUMPTION AND FALLING  
EXPORTS. UNEMPLOYMENT RATE (1.8 PERCENT IN AUGUST 1975)  
SHOULD REMAIN CONSTANT THROUGH 1975 AND FALL ONLY  
MODERATELY TO 1.5 PERCENT IN 1976 AS INCREASED LABOR  
DEMAND WILL BE LARGELY ABSORBED BY INCREASE IN HOURS  
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WORKED AND DROP IN DISGUISED UNEMPLOYMENT. SECRETARIAT  
PLEASED BY EXPECTED FALL OF JAPANESE INFLATION RATE IN  
1976 TO "ONLY" 1 PERCENT (HOW TIMES HAVE CHANGED). IN  
ADDITION TO ACCOUNTING FOR ADDITIONAL STIMULUS CONTAINED  
IN SUPPLEMENTARY BUDGET, SECRETARIAT FORECAST ASSUMES  
MONETARY EASE THROUGH 1976.

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R 151700Z OCT 75  
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8. FRG: ACTUAL GNP DECLINE IN FIRST HALF 1975 GREATER THAN FORECAST IN JULY OUTLOOK (MINUS 7.4 PERCENT VS. MINUS 4-1/2 PERCENT) ATTRIBUTABLE TO FALLING EXPORTS AND RISING SAVINGS RATIOS. WHILE PRICE INCREASE AT ANNUAL RATE ONLY 4 PERCENT THROUGH AUGUST 1975, UNEMPLOYMENT STANDS AT OVER ONE MILLION, 5 PERCENT OF LABOR FORCE. FOR 1976, SECRETARIAT SEES CONTINUED HIGH SAVINGS RATIOS, LITTLE RESTOCKING, AND MODERATE INCREASE IN EXPORTS. PRIVATE SECTOR WEAKNESSES NOT EXPECTED TO BE OFFSET BY FISCAL STIMULUS. THUS, SECRETARIAT (FORECASTS FRG RECOVERY AS WEAKER AND LATER THAN ESTIMATES IN JULY "ECONOMIC OUTLOOK", RATE OF GNP GROWTH PEAKING AT 2.5 PERCENT IN FIRST HALF OF 1976 AND DECLINING TO 0.8 PERCENT IN SECOND HALF OF YEAR.

9. FRANCE: FRENCH GROWTH ALSO LOWER THAN EARLIER FORECASTS, WITH DESTOCKING AND RAPIDLY-RISING NOMINAL WAGES AS MAIN FACTORS. SECRETARIAT FORESEES SLIGHT RECOVERY IN RATE OF GROWTH IN SECOND HALF OF 1975 (2.3 PERCENT), BUT LITTLE ACCELERATION IN 1976 (2.5 PERCENT) AS DESTOCKING AND EXCESS CAPACITY ACT AS MAJOR DRAGS. IN 1976, UNEMPLOYMENT SHOULD INCREASE TO 5 PERCENT, WHILE INFLATION RATE EXPECTED TO REMAIN SLIGHTLY ABOVE 10 PERCENT.

10. U.K: U.K. SHOULD EXPERIENCE MODERATE RECOVERY IN 1976, GROWING AT 0.1 PERCENT VS. -2.1 PERCENT IN 1975. INVENTORY ACCUMULATION, EXPECTED IMPROVEMENT IN FOREIGN BALANCE, AND INCREASED NORTH SEA INVESTMENT WILL SUPPORT RECOVERY, WHILE FALL IN REAL INCOME AND EXCESS CAPACITY WILL BE RESTRAINING FACTORS. SECRETARIAT FEELS WAGE LIMITS WILL BE OBSERVED AND THAT PRICE INCREASES CAN BE HELF TO 9-1/2 PERCENT IN 1976. UNEMPLOYMENT, HOWEVER, COULD REACH 6-1/2 PERCENT IN 1976 VS. CURRENT LEVEL OF 4 PERCENT.

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11. ITALY: SECRETARY FORECAST CONTINUED STAGNATION IN OUTPUT THROUGH 1975, WITH MILD RECOVERY TO 1 PERCENT GROWTH RATE IN 1976. WAGE DEMANDS ASSUMED TO BE MODERATE, LEADING TO SOME DECELERATION IN PRICE INCREASES IN EARLY 1976, BUT EXPANDING PROFITS MARGINS COULD REVERSE TREND LATER IN YEAR. CURRENT ACCOUNT EXPECTED TO BE IN BALANCE THROUGH 1976.

12. CANADA: CONSUMPTION EXPECTED TO LEAD RECOVERY IN SECOND HALF OF 1975 WITH 4.7 PERCENT GROWTH IN 1976 FUELED BY STOCKBUILDING, BY U.S. RECOVERY, AND BY CONSUMPTION. HOWEVER, THIGH MONEY AND FALL IN FIXED INVESTMENT COULD SLOW PACE OF RECOVERY. SECRETARIAT FORECASTS 11-1/2 PERCENT PRICE INCREASE IN 1975 AND 9-1/2 PERCENT FOR 1976, WITH SOME DECELERATION THROUGH PERIOD, BUT ACCELERATION IN WAGE INCREASES EXPECTED.

III.

13. AT MEETING, SECRETARIATE CIRCULATED TABLES 1,2, AND 3 GIVING LATEST ESTIMATES OF GROWTH OF GNP AND OF FINAL DEMAND FOR BIG 7 AND OF TRADE FOR OECD AS A WHOLE. TABLE 4 COMPARES LATEST GROWTH ESTIMATES FOR BIG 7 WITH THOSE CONTAINED IN JULY "ECONOMIC OUTLOOK."

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TABLE 1

GROWTH OF REAL GNP IN 7 MAJOR COUNTRIES  
 PERCENTAGE CHANGES; SEASONALLY ADJUSTED AT ANNUAL RATES  
 FROM PERVIOUS FROM PREVIOUS HALF-YEAR  
 YEAR 1974 1975 1975 1976 1976  
 1974 1975 1976 II I II I II

CANADA 2.8 -0.8 4.7 -0.5 -2.7 3.3 5.2 5.0  
 UNITED STATES -2.1 -3.3 5.3 -3.7 -7.7 6.3 5.4 4.0  
 JAPAN -1.8 1.5 4.5 3.1 -0.2 3.6 4.7 5.3  
 FRANCE (A) 3.9 -2.0 2.5 -0.1 -5.0 2.3 2.7 2.5  
 GERMANY 0.4 -4.2 1.8 -2.5 -7.4 0.7 2.5 0.8  
 ITALY (A) 3.2 -4.5 1.0 -6.7 -5.7 0.2 0.8 2.2  
 UNITED KINGDOM  
 (A) 0 -2.1 0.1 5.5 -4.5 4.6 1.7 1.6  
 TOTAL OF ABOVE  
 COUNTRIES (B) -0.6 -2.4 3.9 -1.6 -5.8 3.7 4.2 3.5

(A) GDP

(B) 1974 WEIGHTS AND EXCHANGE RATES

NL TABLE 2  
 DEVELOPMENT OF FINAL DOMESTIC DEMAND  
 IN 7 MAJOR COUNTRIES  
 PERCENTAGE CHANGES; SEASONALLY ADJUSTED AT ANNUAL RATES

FROM PREVIOUS FROM PREVIOUS HALF-YEAR  
 YEAR 1974 1975 1975 1976 1976  
 1974 1975 1976 II I II I II

CANADA 5.2 2.2 3.9 0.5 2.1 4.0 3.9 3.7  
 UNITED STATES -2.5 -1.6 3.6 -3.0 -3.5 3.6 3.6 3.5  
 JAPAN -2.9 2.6 4.1 2.6 2.1 3.6 4.1 4.6  
 FRANCE 3.9 0.2 1.5 0.3 -0.3 1.2 1.5 1.9  
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GERMANY -1.5 -0.3 1.5 -0.4 -1.1 2.1 1.9 -0.6  
 ITALY 2.7 -5.5 0.2 -6.0 -7.2 -1.3 0.1 2.0  
 UNITED KINGDOM -0.1 -0.2 -1.5 2.8 0.3 -4.3 -0.8 0.1

TOTAL OF ABOVE  
 COUNTRIES (A) -1.1 -0.6 2.7 -1.1 -1.7 2.5 2.8 2.7

(A) 1974 GNP WEIGHTS AND EXCHANGE RATES

TABLE 3  
 FOREIGN TRADE OF THE OECD AREA (A)  
 SEASONALLY ADJUSTED, PER CENT CHANGES AT ANNUAL RATES

| 1975 |      | 1976 |    |
|------|------|------|----|
| 1975 | 1976 | I    | II |

## TRADE VOLUMES

|                  |       |       |        |      |       |       |
|------------------|-------|-------|--------|------|-------|-------|
| TOTAL IMPORTS:   | -10   | 5     | -19.5  | 3.5  | 5.75  | 5.5   |
| OIL              | -8.5  | 6.75  | -22.25 | 12.5 | 5.25  | 4.5   |
| NON-OIL          | -10.5 | 4.5   | -18.5  | 2    | 6     | 5.75  |
| TOTAL EXPORTS:   | -6    | 3.5   | -11.25 | .5   | 4.75  | 4     |
| INTRA-OECD (A)   | -12   | 4.25  | -21.5  | 1.5  | 5.5   | 5.25  |
| TO OPEC          | 48    | 20    | 49     | 29   | 20    | 14    |
| TO NON-OIL LDC'S | -3.5  | -4.25 | 0      | -14  | -2.75 | 3     |
| TO OTHER         | 2     | -4.75 | -.75   | -6.5 | 1     | -13.5 |

## TRADE VALUES (IN

## LOCAL CURRENCY (B))

|                   |       |       |      |      |       |       |
|-------------------|-------|-------|------|------|-------|-------|
| TOTAL IMPORTS (C) | -1.75 | 13.5  | -17  | 12.5 | 14.5  | 13.25 |
| TOTAL EXPORTS (C) | 3.75  | 11.75 | -4.5 | 7.75 | 13.25 | 12.25 |

## PRICES

## AVERAGE VALUES (IN

## LOCAL CURRENCY (B))

|               |      |   |     |      |      |      |
|---------------|------|---|-----|------|------|------|
| TOTAL IMPORTS | 9.25 | 8 | 3   | 8.75 | 8.25 | 7.25 |
| TOTAL EXPORTS | 10.5 | 8 | 7.5 | 7.25 | 8    | 8    |

(A) -ADJUSTED FOR DISCREPANCY IN RECORDING OF INTRA-OECD  
TRADE. IMPORTS ARE ADJUSTED TO A F.O.B. BASIS.

(B) WEIGHTED AVERAGE OF INDIVIDUAL COUNTRIES, WEIGHTED  
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BY SHARE IN IMPORTS OR EXPORTS.

(C) INCLUDING TRADE WITH UNSPECIFIED ORIGINS/DESTINA-  
TIONS.

TABLE 4  
GNP PROJECTIONS

| JULY "ECONOMIC OUTLOOK" |  |  |           | LATEST |  |
|-------------------------|--|--|-----------|--------|--|
| ESTIMATES               |  |  | ESTIMATES |        |  |

| 1975 |    | 1976 |    | 1975 |    | 1976 |    |
|------|----|------|----|------|----|------|----|
| I    | II | I    | II | I    | II | I    | II |

|        |       |       |      |      |      |     |
|--------|-------|-------|------|------|------|-----|
| CANADA | -2.75 | 5.5   | 5.25 | -2.7 | 3.3  | 5.2 |
| U.S.   | -8    | 5     | 5.25 | -7.7 | 6.3  | 5.4 |
| JAPAN  | -1    | 5     | 6    | -0.2 | 3.6  | 4.7 |
| FRANCE | 0     | 1.5   | 2    | -5.0 | 2.3  | 2.7 |
| FRG    | -4.5  | 3     | 4    | -7.4 | 0.7  | 2.5 |
| ITALY  | -1.5  | -1.5  | .5   | -5.7 | 0.2  | 0.8 |
| U.K.   | 0     | -2.75 | 1.25 | -4.5 | -4.6 | 1.7 |

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC GROWTH, GNP, COMMITTEE MEETINGS, ECONOMIC ESTIMATES, PROGRESS REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 15 OCT 1975  
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**Disposition Approved on Date:**  
**Disposition Authority:** SmithRJ  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Review Authority:** SmithRJ  
**Review Comment:** n/a  
**Review Content Flags:**  
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**Review Event:**  
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**Review History:** RELEASED <10 APR 2003 by SmithRJ>; APPROVED <30 SEP 2003 by SmithRJ>  
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**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
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**To:** STATE  
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**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006